

ORIGINAL OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

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2007 DEC -4 P 3:26

AZ CORP COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: December 4, 2007

DOCKETED BY

NR

RE: ARIZONA PUBLIC SERVICE - APPLICATION FOR APPROVAL OF PARTIAL REQUIREMENTS ELECTRIC SERVICE RATE E-56 (DOCKET NOS. E-01345A-05-0816, E-01345A-05-0826, AND E-01345A-05-0827)

Background

Arizona Public Service Company ("APS" or "Company") had proposed two new partial requirement rate schedules, E-56 and E-57, in its last rate case. The Decision in that case, Decision No. 69663, did not approve the tariffs but required APS to meet with Staff and interested parties to discuss and possibly revise E-56 and E-57. APS was to submit E-56 and E-57 for Commission approval within 60 days of the Decision. APS held meetings with interested parties on August 6, 2007 and August 17, 2007. On August 28, 2007, APS filed an application for approval of new electric tariffs, Rate Schedules E-56 (Partial Requirements Service) and E-57 (Solar Partial Requirements Service) in the above-captioned Dockets. APS included a statement that waived the 30-day time clock. On November 27, 2007, APS filed a revised version of E-56 to clarify language and define relevant terms as well as to simplify and reduce some charges. E-56 is being addressed at this time.

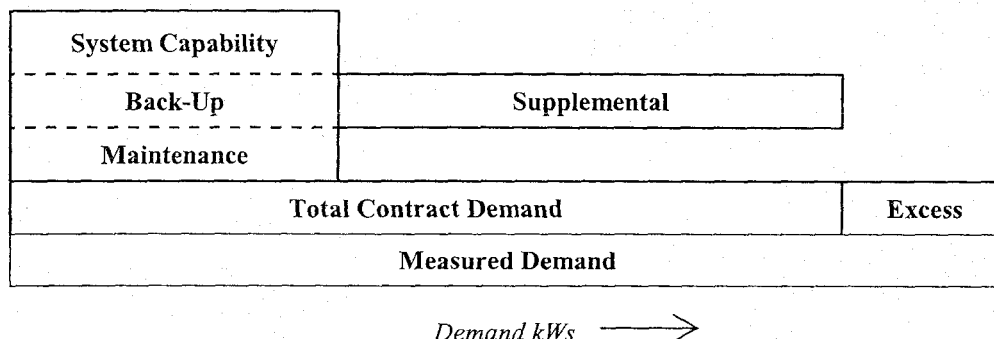
A partial requirements rate schedule is necessary for customers who provide either all or a portion of their own generation. If the self generation supplies less than 100 percent of the customer's load, utility generation must be purchased for the remainder. Even if the customer's generation is sufficient to serve the full load, utility service is needed during maintenance or other outage circumstances. Decision No. 69663 had frozen existing partial requirement rate schedules E-55 and E-32R.

Proposed Tariff

APS' proposed E-56 rate schedule applies to customers with any type of on-site generation with a capability of 100 kW or greater and would work in conjunction with the rate schedule from which the customer currently takes service.

E-56 would provide for power sales beyond what the customer's on-site facilities supply (Supplemental Power), as well as replacement power if the on-site generation is out of service for maintenance or due to a forced outage (Maintenance Power or Back-Up Power). The provision of power would be as shown and described below.

Figure 1. E-56 Partial Requirements Service Definitions of Demands



System Capability

On Figure 1, System Capability is the generating capacity in kW of the Customer-owned facilities.

Back-up and Maintenance Power

Back-up power and Maintenance power are defined to be at the same level as System Capability since this is the capacity needed to replace the on-site generation (i.e., System Capability) when it is out of service due to a either forced outage or scheduled maintenance. Back-up and Maintenance power may be contracted at less than but not greater than the total output of the Customer's generation facilities.

Rates for Back-up power are derived as the unbundled generation demand charge plus unbundled transmission demand charge divided by twenty-one (there is an average of 21 on-peak weekdays within a month) for the E-34 or E-32 tariff as the case may be for the Customer's applicable General Service tariff. So Back-up power is priced as follows:

Rate Schedule E-34 Customer - On-Peak:	\$0.4923 per kW Day
Rate Schedule E-32 Customer - On-Peak	\$0.0755 per kW Day
During Scheduled Maintenance:	One Half (1/2) On-Peak Charge
Off Peak:	No Charge

On-Peak Periods: 9 a.m. to 9 p.m., weekdays or as reflected in the customer's otherwise applicable retail rate schedule

Off-Peak Periods: All other hours

Maintenance power is priced at one-half the rate for back-up power because it can be known and planned for, unlike unscheduled back-up power due to a forced outage. As indicated,

Back-up Power is billed on a per-day basis with the billing demand being the highest 15-minute integrated demand measured during the on-peak hours shown.

Supplemental Demand

Supplemental demand in kW is any capacity needed over and above the capability of the on-site system. It also is a contract demand. Supplemental service is priced according to the Customer's applicable General Service tariff. Supplemental demand plus back-up demand equal the Total Contract Demand.

Excess Power

Any measured demand greater than the Total Contract Demand is Excess Power and is billed at three times the sum of generation demand, distribution demand, and transmission charges included in the E-34 rate schedule. These rates are specified on the E-56 tariff sheet and shown here:

Secondary Service:	\$45.89 per kW
Primary Service:	\$43.52 per kW
Transmission Service:	\$31.73 per kW

Customers who set an adequate back-up contract demand likely will not be impacted by the Excess Demand charge. This charge provides an incentive to the customer to request a sufficient back-up contract demand amount. Customers who set unrealistically low back-up contract demands to avoid back-up charges may actually incur higher costs in the form of Excess Demand charges because the Total Contract Demand is set too low.

Energy

All kWhs of energy consumption are priced according to the Customer's applicable General Service tariff.

Staff Analysis and Recommendation

The Company has provided a set of worksheets describing numerous scenarios with respect to self-generation, down time, and use of the E-56 service. Staff has verified the accuracy of these worksheets which demonstrate that any customer charges associated with the proposed E-56 rate schedule do not appreciably diminish the benefit of customer self-generation.

Staff has analyzed this application in terms of whether there were fair value implications. Compared to APS' total revenues, any impact from this E-56 rate schedule would be de minimus, and any impact on APS' fair value rate base and rate of return would also be de minimus.

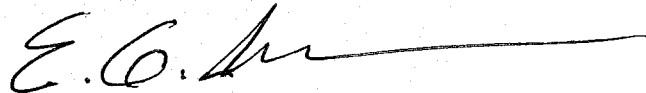
THE COMMISSION

December 4, 2007

Page 4

Staff recommends approval of the proposed E-56 tariff, as revised

Staff further recommends that the Commission require APS to file with Docket Control, as a compliance item in this case, tariff pages consistent with the terms of the Commission's Decision within 15 days from the effective date of the Decision.

A handwritten signature in black ink, appearing to read "E.G. Johnson", followed by a long horizontal line extending to the right.

Ernest G. Johnson
Director
Utilities Division

EGJ:JJP:lhv\CCK

ORIGINATOR: Jeffrey Pasquinelli

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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

IN THE MATTER OF ARIZONA PUBLIC
SERVICE - APPLICATION FOR
APPROVAL OF PARTIAL
REQUIREMENTS ELECTRIC SERVICE
RATE E-56

DOCKETS NOS. E-01345A-05-0816
E-01345A-05-0826
E-01345A-05-0827

DECISION NO. _____

ORDER

Open Meeting
December 18 and 19, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS" or "Company") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. APS had proposed two new partial requirements rate schedules, E-56 and E-57, in its last rate case. The Decision in that case, Decision No. 69663, did not approve the tariffs but required APS to meet with Staff and interested parties to discuss and possibly revise E-56 and E-57. APS was to submit revised rate schedules for Commission approval within 60 days of the Decision. APS held meetings with interested parties on August 6, 2007 and August 17, 2007.

3. On August 28, 2007, APS filed an application for approval of new electric tariffs, Rate Schedules E-56 (Partial Requirements Service) and E-57 (Solar Partial Requirements Service) in the above-captioned Dockets. APS included a statement that waived the 30-day time clock.

4. On November 27, 2007, APS filed a revised version of E-56 to clarify language and define relevant terms as well as to simplify and reduce some charges. E-56 is being addressed at this time.

5. A partial requirements rate schedule is necessary for customers who provide either all or a portion of their own generation. If the self generation supplies less than 100 percent of the customer's load, utility generation must be purchased for the remainder. Even if the customer's generation is sufficient to serve the full load, utility service is needed during maintenance or other outage circumstances.

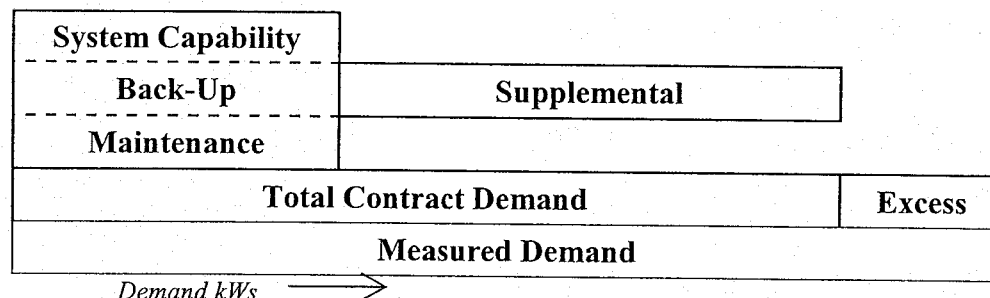
6. Decision No. 69663 had frozen existing partial requirement rate schedules E-55 and E-32R.

Proposed Tariff

7. APS' proposed E-56 rate schedule applies to customers with any type of on-site generation with a capability of 100 kW or greater and would work in conjunction with the rate schedule from which the customer currently takes service.

8. E-56 would provide for power sales beyond what the customer's on-site facilities supply (Supplemental Power), as well as replacement power if the on-site generation is out of service for maintenance or due to a forced outage (Maintenance Power or Back-Up Power). The provision of power would be as shown and described below.

Figure 1. E-56 Partial Requirements Service Definitions of Demands



1 *System Capability*

2 9. On Figure 1, System Capability is the generating capacity in kW of the Customer-
3 owned facilities.

4
5 *Back-up and Maintenance Power*

6 10. Back-up power and Maintenance power are defined to be at the same level as
7 System Capability since this is the capacity needed to replace the on-site generation (i.e., System
8 Capability) when it is out of service due to either a forced outage or scheduled maintenance.
9 Back-up and Maintenance power may be contracted at less than but not greater than the total
10 output of the Customer's generation facilities.

11 11. Rates for Back-up power are derived as the unbundled generation demand charge
12 plus unbundled transmission demand charge divided by twenty-one (there is an average of 21 on-
13 peak weekdays within a month) for the E-34 or E-32 tariff as the case may be for the Customer's
14 applicable General Service tariff. So Back-up power is priced as follows:

15 Rate Schedule E-34 Customer - On-Peak: \$0.4923 per kW Day
16 Rate Schedule E-32 Customer - On-Peak \$0.0755 per kW Day
17 During Scheduled Maintenance: One Half (1/2) On-Peak Charge
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18 On-Peak Periods: 9 a.m. to 9 p.m., weekdays or as reflected in the
customer's otherwise applicable retail rate schedule
19 Off-Peak Periods: All other hours
20

21 12. Maintenance power is priced at one-half the rate for back-up power because it can
22 be known and planned for, unlike unscheduled back-up power due to a forced outage. As
23 indicated, Back-up Power is billed on a per-day basis with the billing demand being the highest
24 15-minute integrated demand measured during the on-peak hours shown.

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Supplemental Demand

13. Supplemental demand in kW is any capacity needed over and above the capability of the on-site system. It also is a contract demand. Supplemental service is priced according to the Customer's applicable General Service tariff. Supplemental demand plus back-up demand equal the Total Contract Demand.

Excess Power

14. Any measured demand greater than the Total Contract Demand is Excess Power and is billed at three times the sum of generation demand, distribution demand, and transmission charges included in the E-34 rate schedule. These rates are specified on the E-56 tariff sheet and shown here:

Secondary Service:	\$45.89 per kW
Primary Service:	\$43.52 per kW
Transmission Service:	\$31.73 per kW

15. Customers who set an adequate back-up contract demand likely will not be impacted by the Excess Demand charge. This charge provides an incentive to the customer to request a sufficient back-up contract demand amount. Customers who set unrealistically low back-up contract demands to avoid back-up charges may actually incur higher costs in the form of Excess Demand charges because the Total Contract Demand is set too low.

Energy

16. All kWhs of energy consumption are priced according to the Customer's applicable General Service tariff.

Staff Analysis and Recommendation

17. The Company has provided a set of worksheets describing numerous scenarios with respect to self-generation, down time, and use of the E-56 service. Staff has verified the accuracy

...

1 of these worksheets which demonstrate that any customer charges associated with the proposed
2 E-56 rate schedule do not appreciably diminish the benefit of customer self-generation.

3 18. Staff has analyzed this application in terms of whether there were fair value
4 implications. Compared to APS' total revenues, any impact from this E-56 rate schedule would be
5 de minimus, and any impact on APS' fair value rate base and rate of return would also be de
6 minimus.

7 19. Staff has recommended approval of the proposed E-56 tariff, as revised.

8 20. Staff has further recommended that the Commission require APS to file with
9 Docket Control, as a compliance matter in this case, tariff pages consistent with the terms of the
10 Commission's Decision within 15 days from the effective date of the Decision.

11 CONCLUSIONS OF LAW

12 1. APS is an Arizona public service corporation within the meaning of Article XV,
13 Section 2 of the Arizona Constitution.

14 2. The Commission has jurisdiction over APS and the subject matter of the
15 application.

16 3. Approval of the proposed tariff does not constitute a rate increase as contemplated
17 by A.R.S. Section 40-250.

18 4. The Commission, having reviewed the application and Staff's Memorandum dated
19 December 4, 2007, concludes that it is in the public interest to approve the E-56 tariff, as revised.

20 ORDER

21 IT IS THEREFORE ORDERED that Arizona Public Service Company's proposed rate
22 schedule E-56, as revised be approved, as discussed herein.

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1 IT IS FURTHER ORDERED that Arizona Public Service Company file with Docket
2 Control, as a compliance item in this matter, tariff pages consistent with the terms of this Decision
3 within 15 days from the effective date of this Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

7
8 CHAIRMAN

COMMISSIONER

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11 COMMISSIONER

COMMISSIONER

COMMISSIONER

12 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
13 Executive Director of the Arizona Corporation Commission,
14 have hereunto, set my hand and caused the official seal of
15 this Commission to be affixed at the Capitol, in the City of
16 Phoenix, this _____ day of _____, 2007.

17
18 DEAN S. MILLER
19 Interim Executive Director

20 DISSENT: _____

21
22 DISSENT: _____

23 EGJ:JJP:lhmcCK
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1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKETS NOS. E-01345A-05-0816, E-01345A-05-0826, and E-01345A-05-0827

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4 Director, Regulation and Pricing
5 Arizona Public Service Company
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7 Phoenix Arizona 85072-3999

8 Mr. Ernest G. Johnson
9 Director, Utilities Division
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